

AUDITING PROCEDURES REPORT

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Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Clio, Michigan</u>	County Genesee
Audit Date June 30, 2004	Opinion Date September 14, 2004	Date Accountant Report Submitted To State: November 19, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature <i>Plante & Moran, PLLC</i>			

City of Clio, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Clio, Michigan

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Independent Auditor's Report

To the City Council
City of Clio, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Clio as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Clio's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Clio as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Clio, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clio's basic financial statements. The accompanying other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 13, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

Plante & Moran, PLLC

September 14, 2004

City of Clio, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Clio's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- Legal services were approximately \$13,000 over the original budget relating to various services performed, including a billing related to fire station improvements, miscellaneous labor attorney bills, and additional expenses charged by the City Attorney.
- The City's municipal building and grounds were approximately \$14,000 over the original budget due to roof maintenance and repair expenses, parking lot storm drain repair, rear exterior door, and offsite storage rental.
- The parks' system was approximately \$40,000 over the original budget, due to higher than anticipated wages totaling approximately \$20,000 as a result of cement work done to repair and build sidewalks and bike paths. The other overage was caused by the cost of material for these projects.
- The above three budget overages caused the city to go into General Fund fund balance by nearly \$60,000, leaving a starting balance for fiscal year 2004-2005 of approximately \$226,000.
- The City began a long-term investment in its road infrastructure by issuing \$345,000 of road bonds.
- The City issued a Bond Anticipation Note in the amount of \$300,000 to start work on the W. Vienna 12" water line and two sewer relining projects. The City will pay off this bond anticipation note in the fall of 2005 and reissue a new bond of \$845,000 to finish the above-mentioned projects.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

City of Clio, Michigan

Management's Discussion and Analysis (Continued)

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date (in thousands of dollars). Prior year amounts are not available since this is the first year of implementing GASB 34.

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets	\$ 1,100	\$ 747	\$ 1,847
Noncurrent assets	<u>1,604</u>	<u>1,234</u>	<u>2,838</u>
Total assets	2,704	1,981	4,685
Liabilities			
Current liabilities	210	85	295
Long-term liabilities	<u>700</u>	<u>870</u>	<u>1,570</u>
Total liabilities	<u>910</u>	<u>955</u>	<u>1,865</u>
Net Assets			
Invested in capital assets - Net of related debt	1,043	490	1,533
Restricted	515	-	515
Unrestricted	<u>236</u>	<u>536</u>	<u>772</u>
Total net assets	<u><u>\$ 1,794</u></u>	<u><u>\$ 1,026</u></u>	<u><u>\$ 2,820</u></u>

The City's combined net assets increased approximately 10 percent from last year.

City of Clio, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year (in thousands of dollars). Prior year amounts are not available since this is the first year of implementing GASB No. 34.

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue:			
Charges for services	\$ 227	\$ 878	\$ 1,105
Operating grants and contributions	248	-	248
Capital grants and contributions	352	-	352
General revenue:			
Property taxes	732	-	732
State-shared revenue	307	-	307
Unrestricted investment earnings	14	5	19
Franchise fees	23	-	23
Loss on sale of capital assets	(4)	-	(4)
Miscellaneous	10	-	10
Total revenue	1,909	883	2,792
Program Expenses			
General government	658	-	658
Public safety	464	-	464
Public works	215	-	215
Highways and streets	148	-	148
Community and economic development	74	-	74
Recreation and culture	128	-	128
Interest on long-term debt	28	-	28
Water	-	416	416
Sewer	-	388	388
Total program expenses	1,715	804	2,519
Change in Net Assets	\$ 194	\$ 79	\$ 273

Governmental Activities

As this is the first year of implementation for GASB No. 34, comparative information on a government-wide basis is not available for the year ended June 30, 2004. Comparative information will be presented in the management's discussion and analysis for the period ending June 30, 2005.

City of Clio, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Water and Sewer Funds. We provide water to residents from the Detroit Water System. We provide sewage treatment through a County-owned and operated sewage treatment plant. In 2004, the City's water loss was the lowest in its history, resulting in an operating income for the Water Fund. The Sewer Fund ended with an operating loss of approximately \$47,000 due in most part to miscellaneous sewer repair costs and maintenance.

The City's Funds

Our analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Commission creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2004 include the General Fund, the Major Streets Fund, the Local Streets Fund, the Public Improvement Fund, and the Major Street Construction Fund.

The General Fund pays for most of the City's governmental services. The most significant are general government and public safety, which incurred expenses of approximately \$1,098,000 in 2004. General government activities include the cost of day-to-day operations to run the City. In addition, the City Commission, City Administrator, City Clerk, and City Treasurer departments, as well as planning, assessing, and fringe benefits, are part of the general government activities. Public safety consists of police protection and the City's contribution to the Clio Area Fire Authority. With total expenses for the General Fund at approximately \$1,436,000, you can see that these two activities make up a major portion of the total.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The most significant changes were to increase the estimated City Hall expense, legal service expense, and parks expense by over \$83,000. The General Fund overall was approximately \$81,000 over its original budget in expenses, but due to a slight increase in revenue over the original budget, the General Fund's fund balance decrease was minimized.

Capital Asset and Debt Administration

At the end of 2003, the City had approximately \$2,116,000 invested in a broad range of capital assets, including buildings, police and DPS equipment, and water and sewer lines. In 2004, the City invested additional amounts for various projects, including the S. Mill and Darrow Steets.

City of Clio, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The City's budget for next year calls for a freeze in state revenue sharing and a slight decrease in overall revenue. The fiscal year 2004-2005 budget reflects belt tightening in overall expenses. We have not budgeted money for capital improvements and have expressed to each department head to watch expenses closely.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

City of Clio, Michigan

Statement of Net Assets June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Assets				
Cash (Note 3)	\$ 701,038	\$ 487,258	\$ 1,188,296	\$ 21,399
Due from other governmental units	126,377	-	126,377	-
Receivables:				
Customers	-	90,223	90,223	-
Special assessments	33,031	-	33,031	-
Other	20,256	-	20,256	-
Prepaid costs and other assets	-	8,000	8,000	-
Restricted assets - Unspent bond proceeds (Notes 3 and 8)	218,997	161,831	380,828	-
Capital assets - Net (Note 5):				
Nondepreciated	756,251	35,162	791,413	169,800
Depreciated	847,881	1,198,746	2,046,627	-
Total assets	2,703,831	1,981,220	4,685,051	191,199
Liabilities				
Accounts payable	96,396	39,204	135,600	-
Due to other governmental units	1,909	-	1,909	583
Accrued and other liabilities	28,556	10,372	38,928	-
Noncurrent liabilities (Note 7):				
Due within one year	83,228	35,000	118,228	-
Due in more than one year	699,770	870,000	1,569,770	-
Total liabilities	909,859	954,576	1,864,435	583
Net Assets				
Invested in capital assets - Net of related debt	1,043,063	490,739	1,533,802	169,800
Restricted:				
Streets and highways	403,215	-	403,215	-
Park and other equipment	17,996	-	17,996	-
Debt service	94,178	-	94,178	-
Unrestricted	235,520	535,905	771,425	20,816
Total net assets	<u>\$ 1,793,972</u>	<u>\$ 1,026,644</u>	<u>\$ 2,820,616</u>	<u>\$ 190,616</u>

City of Clio, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 658,166	\$ 2,287	\$ 37,973	\$ -
Public safety	463,970	87,359	16,939	-
Public works	215,031	112,205	-	-
Highways and streets	148,412	-	193,517	292,212
Community and economic development	73,849	25,459	-	200
Recreation and culture	128,009	-	-	59,111
Interest on long-term debt	27,434	-	-	-
Total governmental activities	1,714,871	227,310	248,429	351,523
Business-type activities:				
Water	415,761	530,991	-	-
Sewer	388,316	346,724	-	-
Total business-type activities	804,077	877,715	-	-
Total primary government	<u>\$ 2,518,948</u>	<u>\$ 1,105,025</u>	<u>\$ 248,429</u>	<u>\$ 351,523</u>
Component unit - Downtown Development Authority	<u>\$ 17,498</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Property taxes
State-shared revenues
Unrestricted investment earnings
Franchise fees
Loss on sale of capital assets
Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities
Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (617,906)	\$ -	\$ (617,906)	\$ -
(359,672)	-	(359,672)	-
(102,826)	-	(102,826)	-
337,317	-	337,317	-
(48,190)	-	(48,190)	-
(68,898)	-	(68,898)	-
(27,434)	-	(27,434)	-
(887,609)	-	(887,609)	-
-	115,230	115,230	-
-	(41,592)	(41,592)	-
-	73,638	73,638	-
(887,609)	73,638	(813,971)	-
-	-	-	(17,498)
731,833	-	731,833	14,578
307,028	-	307,028	-
13,649	5,278	18,927	163
22,758	-	22,758	-
(4,396)	-	(4,396)	-
10,917	-	10,917	-
1,081,789	5,278	1,087,067	14,741
194,180	78,916	273,096	(2,757)
1,599,792	947,728	2,547,520	193,373
\$ 1,793,972	\$ 1,026,644	\$ 2,820,616	\$ 190,616

City of Clio, Michigan

Governmental Funds Balance Sheet June 30, 2004

	Major Funds					Other Non-	Total
	General	Major Streets	Local Streets	Public	Major Street	major	Total
	Fund	Fund	Fund	Improvements	Construction	Governmental	Governmental
	Fund	Fund	Fund	Fund	Fund	Funds	Funds
Assets							
Cash	\$ 239,768	\$ -	\$ 14,067	\$ 241,486	\$ 122,884	\$ 76,470	\$ 694,675
Due from other funds (Note 6)	5,000	83,421	26,336	-	-	70	114,827
Due from other governmental units	62,492	20,852	6,741	-	36,292	-	126,377
Receivables:							
Special assessments	-	-	-	-	-	33,031	33,031
Other	16,773	-	3,483	-	-	-	20,256
Restricted assets - Unspent bond proceeds (Note 3)	-	-	-	-	218,997	-	218,997
Total assets	\$ 324,033	\$ 104,273	\$ 50,627	\$ 241,486	\$ 378,173	\$ 109,571	\$ 1,208,163
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 31,751	\$ 7,043	\$ -	\$ -	\$ 56,062	\$ -	\$ 94,856
Due to other funds	44,767	-	-	-	65,060	-	109,827
Due to other governmental units	1,909	-	-	-	-	-	1,909
Accrued and other liabilities	19,274	788	905	-	-	70	21,037
Deferred revenue (Note 4)	-	-	-	-	-	33,031	33,031
Total liabilities	97,701	7,831	905	-	121,122	33,101	260,660
Fund Balances							
Reserved for parks and park improvements	8,733	-	-	7,412	-	-	16,145
Reserved for police equipment	1,851	-	-	-	-	-	1,851
Unreserved - Reported in:							
General Fund	215,748	-	-	-	-	-	215,748
Special Revenue Funds	-	96,442	49,722	-	-	15,323	161,487
Debt Service Funds	-	-	-	-	-	61,147	61,147
Capital Projects Funds	-	-	-	234,074	257,051	-	491,125
Total fund balances	226,332	96,442	49,722	241,486	257,051	76,470	947,503
Total liabilities and fund balances	\$ 324,033	\$ 104,273	\$ 50,627	\$ 241,486	\$ 378,173	\$ 109,571	\$ 1,208,163

City of Clio, Michigan

Governmental Funds Reconciliation of Fund Balances of Governmental Funds to the Statement of Net Assets June 30, 2004

Total Fund Balances for Governmental Funds	\$ 947,503
Capital assets used in governmental activities are not financial resources and are not reported in the funds	1,497,127
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	33,031
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(747,198)
Accrued interest is not due and payable in the current period and is not reported in the funds	(7,306)
Internal Service Fund is included as part of governmental activities	<u>70,815</u>
Net Assets of Governmental Activities	<u>\$ 1,793,972</u>

City of Clio, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	Major Funds						
	General Fund	Major Streets Fund	Local Streets Fund	Public Improve-ments Fund	Major Street Construction Fund	Other Non-major Govern-mental Funds	Total Govern-mental Funds
Revenue							
Property taxes	\$ 731,833	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 731,833
Licenses and permits	70,673	-	-	-	-	-	70,673
Federal sources	11,389	-	86,416	-	205,796	-	303,601
State sources	307,029	153,107	39,660	-	-	-	499,796
Charges for services	12,317	-	-	-	-	111,205	123,522
Fines and forfeitures	7,229	-	-	-	-	-	7,229
Interest	5,766	397	548	2,616	480	3,780	13,587
Other	161,768	450	3,783	200	-	12,865	179,066
Total revenue	1,308,004	153,954	130,407	2,816	206,276	127,850	1,929,307
Expenditures							
General government	642,166	11,853	3,965	41,391	-	-	699,375
Public safety	455,487	-	-	-	-	-	455,487
Public works	101,344	-	-	-	-	111,275	212,619
Highway and streets	-	65,185	216,610	-	294,225	-	576,020
Recreation and cultural	128,386	-	-	-	-	-	128,386
Civic buildings	32,162	-	-	-	-	-	32,162
Debt service	6,405	35,811	9,380	-	-	11,395	62,991
Total expenditures	1,365,950	112,849	229,955	41,391	294,225	122,670	2,167,040
Excess of Revenue Over (Under) Expenditures	(57,946)	41,105	(99,548)	(38,575)	(87,949)	5,180	(237,733)
Other Financing Sources (Uses)							
Proceeds from long-term debt issue	-	-	-	-	345,000	-	345,000
Transfers in (Note 6)	-	-	17,115	-	-	70	17,185
Transfers out (Note 6)	(70)	(17,115)	-	-	-	-	(17,185)
Total other financing sources (uses)	(70)	(17,115)	17,115	-	345,000	70	345,000
Net Change in Fund Balances	(58,016)	23,990	(82,433)	(38,575)	257,051	5,250	107,267
Fund Balances - Beginning of year	284,348	72,452	132,155	280,061	-	71,220	840,236
Fund Balances - End of year	\$ 226,332	\$ 96,442	\$ 49,722	\$ 241,486	\$ 257,051	\$ 76,470	\$ 947,503

City of Clio, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ 107,267

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	446,491
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(12,438)
Accrued interest payable is recorded when due in the governmental funds	(2,806)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	40,826
Bond proceeds are not reported as financing sources on the statement of activities	(345,000)
Changes in accumulated employee vacation pay are recorded when earned in the statement of activities	2,876
Internal Service Funds are also included as governmental activities	(43,036)

Change in Net Assets of Governmental Activities \$ 194,180

City of Clio, Michigan

Proprietary Funds Enterprise Funds and Internal Service Fund Statement of Net Assets June 30, 2004

	Enterprise Funds - Major Funds			Internal Service Fund
	Water	Sewer	Total	
Assets				
Cash (Note 3)	\$ 340,573	\$ 146,685	\$ 487,258	\$ 6,363
Customer receivables	50,224	39,999	90,223	-
Prepaid and other assets	8,000	-	8,000	-
Restricted assets - Unspent bond proceeds (Note 3)	27,395	134,436	161,831	-
Capital assets - Net (Note 5):				
Nondepreciated	32,622	2,540	35,162	-
Depreciated	856,496	342,250	1,198,746	107,005
Total assets	1,315,310	665,910	1,981,220	113,368
Liabilities				
Accounts payable	20,522	18,682	39,204	1,540
Accrued and other liabilities	7,252	3,120	10,372	213
Due to other funds	-	-	-	5,000
Noncurrent liabilities (Note 7):				
Due within one year	35,000	-	35,000	19,190
Due in more than one year	630,000	240,000	870,000	16,610
Total liabilities	692,774	261,802	954,576	42,553
Net Assets				
Invested in capital assets - Net of related debt	251,513	239,226	490,739	71,205
Unrestricted	371,023	164,882	535,905	(390)
Total net assets	<u>\$ 622,536</u>	<u>\$ 404,108</u>	<u>\$ 1,026,644</u>	<u>\$ 70,815</u>

City of Clio, Michigan

Proprietary Funds Enterprise Funds and Internal Service Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Enterprise Funds - Major Funds			Internal Service Fund
	Water	Sewer	Total	
Operating Revenue				
Water sales	\$ 449,906	\$ -	\$ 449,906	\$ -
Sewage disposal	-	335,460	335,460	-
Rental income	-	-	-	117,080
Other revenue	73,991	3,333	77,324	8,458
Total operating revenue	523,897	338,793	862,690	125,538
Operating Expenses				
Cost of water	178,391	-	178,391	-
Cost of sewage disposal	-	167,805	167,805	-
Operation and maintenance	203,102	184,701	387,803	110,011
Depreciation	30,970	32,940	63,910	51,766
Total operating expenses	412,463	385,446	797,909	161,777
Operating Income (Loss)	111,434	(46,653)	64,781	(36,239)
Nonoperating Revenue (Expenses)				
Customer connection fees	7,094	7,931	15,025	-
Loss on disposal of capital assets	(2,840)	(2,870)	(5,710)	(4,396)
Interest income	2,611	2,667	5,278	62
Interest expense	(458)	-	(458)	(2,463)
Total nonoperating revenue (expenses)	6,407	7,728	14,135	(6,797)
Change in Net Assets	117,841	(38,925)	78,916	(43,036)
Net Assets - Beginning of year	504,695	443,033	947,728	113,851
Net Assets - End of year	<u>\$ 622,536</u>	<u>\$ 404,108</u>	<u>\$ 1,026,644</u>	<u>\$ 70,815</u>

City of Clio, Michigan

Proprietary Funds Enterprise Funds and Internal Service Fund Statement of Cash Flows Year Ended June 30, 2004

	Enterprise Funds - Major Funds			Internal
	Water	Sewer	Total	Service Fund
Cash Flows from Operating Activities				
Receipts from customers	\$ 442,627	\$ 331,580	\$ 774,207	\$ 117,080
Payments to suppliers	(290,067)	(298,065)	(588,132)	(95,446)
Payments to employees	(133,955)	(50,775)	(184,730)	(14,967)
Internal activity - Payments from (to) other funds	(7,771)	558	(7,213)	5,000
Other receipts	73,991	3,333	77,324	8,458
Net cash provided by (used in) operating activities	84,825	(13,369)	71,456	20,125
Cash Flows from Capital and Related Financing Activities				
Collection of receivable from other funds	308,088	-	308,088	-
Benefit charges received from customers	7,094	7,931	15,025	-
Proceeds from issuance of long-term debt	60,000	240,000	300,000	-
Proceeds from the sale of capital assets	7,077	3,413	10,490	4,693
Purchase of capital assets	(282,839)	(113,780)	(396,619)	(19,475)
Principal and interest paid on capital debt	(35,458)	-	(35,458)	(16,404)
Net cash provided by (used in) capital and related financing activities	63,962	137,564	201,526	(31,186)
Cash Flows from Investing Activities - Interest received on investments	2,611	2,667	5,278	62
Net Increase (Decrease) in Cash	151,398	126,862	278,260	(10,999)
Cash - Beginning of year	216,570	154,259	370,829	17,362
Cash - End of year	<u>\$ 367,968</u>	<u>\$ 281,121</u>	<u>\$ 649,089</u>	<u>\$ 6,363</u>
Balance Sheet Classification of Cash				
Cash	\$ 340,573	\$ 146,685	\$ 487,258	\$ 6,363
Restricted assets - Unspent bond proceeds (Note 3)	27,395	134,436	161,831	-
Total cash	<u>\$ 367,968</u>	<u>\$ 281,121</u>	<u>\$ 649,089</u>	<u>\$ 6,363</u>

Proprietary Funds Enterprise Funds and Internal Service Fund Statement of Cash Flows (Continued) Year Ended June 30, 2004

	Enterprise Funds - Major Funds			Internal
	Water	Sewer	Total	Service Fund
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 111,434	\$ (46,653)	\$ 64,781	\$ (36,239)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	30,970	32,940	63,910	51,766
Changes in assets and liabilities:				
Receivables	(7,279)	(3,880)	(11,159)	-
Accounts payable	(48,201)	3,134	(45,067)	(615)
Accrued and other liabilities	5,672	532	6,204	213
Due from other funds	-	1,364	1,364	806
Due to other funds	(7,771)	(806)	(8,577)	4,194
Net cash provided by (used in) operating activities	<u>\$ 84,825</u>	<u>\$ (13,369)</u>	<u>\$ 71,456</u>	<u>\$ 20,125</u>

City of Clio, Michigan

Fiduciary Funds **Agency Fund Statement of Assets and Liabilities** **June 30, 2004**

Assets

Cash (Note 3)	\$ 3,363
Due from other governmental units	<u>2,959</u>

Total assets	<u><u>\$ 6,322</u></u>
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Liabilities - Other	<u><u>\$ 6,322</u></u>
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Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Clio (the “City”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Clio:

Reporting Entity

The City is governed by an elected seven-member commission (Board of Commissioners). As required by generally accepted accounting principles, these financial statements present the City of Clio and its component unit, the Downtown Development Authority. The component unit discussed below is included in the City’s reporting entity because of the significance of its operational or financial relationship with the City.

The Downtown Development Authority (the “Authority”) is reported within the component unit column in the statement of net assets and the statement of activities. It is reported in a separate column to emphasize that it is legally separate from the City. The Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority’s governing body, consisting of nine individuals, is selected by the City Commission.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Note 1 - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets and Local Streets Funds - The Major Streets and Local Streets Funds account for repairs and maintenance of streets in the City which are financed primarily through State-shared revenues and miscellaneous local sources.

Public Improvements Fund - The Public Improvements Fund accounts for the development, construction, and improvements to various properties in the City, financed through various local sources.

Major Street Construction Fund - The Major Street Construction Fund is used to account for the development, construction, and improvements of major and local streets financed by the issuance of debt.

The City reports the following major proprietary funds:

Water Fund - The Water Fund accounts for the activities of the water distribution system, which provides services to citizens, financed primarily by a user charge for the provision of these services.

Sewer Fund - The Sewer Fund accounts for the activities of the sewage collection system, which provides services to citizens, financed primarily by a user charge for the provision of these services.

Internal Service Funds - Internal Service Funds account for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

Additionally, the City reports the following fund types:

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. These taxes are considered delinquent on September 30, at which time penalties and interest are assessed.

The 2003 taxable valuation of the City totaled approximately \$41,035,000, on which taxes levied consisted of 17.000 mills for operating purposes, resulting in approximately \$732,000 for the City, including various administrative fees and delinquent tax revenues.

In addition, the component unit's taxable value is approximately \$7,352,000 at a millage rate of 2 mills, resulting in taxes levied of nearly \$15,000 for its operations. This amount is recognized in the statement of activities as tax revenue.

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits - Cash includes cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Unspent bond proceeds of the Major Street Construction, Water, and Sewer Funds are required to be set aside for construction; therefore, they are classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. As allowable under GASB Statement No. 34, the City has elected not to retroactively record infrastructure assets acquired prior to July 1, 2003. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note 1 - Summary of Significant Accounting Policies (Continued)

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, approximately \$26,000 of interest expense was capitalized as part of the cost of assets under construction.

Capital assets are depreciated using the straight-line method over the following useful lives:

Governmental activities:

Buildings	50 years
Office and other equipment	3 to 10 years
Land improvements	15 years
Roads and sidewalks	20 years
Vehicles and related equipment	5 to 7 years

Business-type activities:

Water and sewer transmission lines	50 years
Treatment facilities	7 to 35 years
Machinery and equipment	7 years

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused vacation benefits. All vacation is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 - Stewardship, Compliance, and Accountability

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The City records the activities relating to the construction code in the General Fund. A summary of the current year activity, including an allocation of estimated overhead costs and cumulative shortfall, is as follows:

Shortfall at June 30, 2003		\$ (20,092)
Current year building permit revenue		26,128
Related expenses:		
Direct costs	\$ 27,072	
Estimated indirect costs	<u>7,713</u>	
Total construction code expenses		<u>34,785</u>
Shortfall at June 30, 2004		<u>\$ (28,749)</u>

Note 3 - Deposits

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated two banks for the deposit of its funds. The investment policy adopted by the Commission in accordance with Public Act 196 of 1997 has authorized investment in accordance with the State statutory authority as listed above.

At year end, the deposits and cash on hand were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash	\$ 701,038	\$ 487,258	\$ 3,363	\$ 1,191,659	\$ 21,399
Restricted cash	218,997	161,831	-	380,828	-
Total	<u>\$ 920,035</u>	<u>\$ 649,089</u>	<u>\$ 3,363</u>	<u>\$ 1,572,487</u>	<u>\$ 21,399</u>

The breakdown between deposits and cash on hand for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 1,571,868	\$ 21,299
Petty cash or cash on hand	619	100
Total	<u>\$ 1,572,487</u>	<u>\$ 21,399</u>

Note 3 - Deposits (Continued)

The bank balance of the City's deposits was \$1,623,177, of which \$200,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component units' deposits had a bank balance of \$23,968, which was fully covered by federal depository insurance.

Note 4 - Deferred Revenue

On the fund-based statements, governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. The total deferred revenue for governmental funds was unavailable at June 30, 2004.

On the government-wide statements, since reporting is based on the full accrual basis of accounting, both governmental and business-type activities report only the amount of unearned revenue as deferred.

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Reclassifications	Additions	Disposals	Balance June 30, 2004
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 462,026	\$ -	\$ -	\$ -	\$ 462,026
Construction in progress	-	-	294,225	-	294,225
Subtotal	462,026	-	294,225	-	756,251
Capital assets being depreciated:					
Buildings	684,669	-	-	-	684,669
Office and other equipment	441,225	-	23,616	66,677	398,164
Land improvements	-	-	18,850	-	18,850
Roads and sidewalks	-	-	163,777	-	163,777
Vehicles and related equipment	209,510	-	14,475	6,650	217,335
Subtotal	1,335,404	-	220,718	73,327	1,482,795
Accumulated depreciation:					
Buildings	257,568	-	13,300	-	270,868
Office and other equipment	209,142	-	48,389	57,588	199,943
Land improvements	-	-	1,257	-	1,257
Roads and sidewalks	-	-	8,189	-	8,189
Vehicles and related equipment	131,700	-	29,607	6,650	154,657
Subtotal	598,410	-	100,742	64,238	634,914
Net capital assets being depreciated	736,994	-	119,976	9,089	847,881
Net capital assets	<u>\$ 1,199,020</u>	<u>\$ -</u>	<u>\$ 414,201</u>	<u>\$ 9,089</u>	<u>\$ 1,604,132</u>
Business-type Activities					
Capital assets not being depreciated -					
Construction in progress	\$ 368,602	\$ (368,602)	\$ 35,162	\$ -	\$ 35,162
Capital assets being depreciated:					
Water and sewer transmission lines	630,920	368,602	350,967	-	1,350,489
Treatment facilities	298,519	-	-	-	298,519
Machinery and equipment	161,254	-	10,490	28,954	142,790
Subtotal	1,090,693	368,602	361,457	28,954	1,791,798
Accumulated depreciation:					
Water and sewer transmission lines	330,282	-	31,064	-	361,346
Treatment facilities	173,991	-	12,448	-	186,439
Machinery and equipment	37,623	-	20,398	12,754	45,267
Subtotal	541,896	-	63,910	12,754	593,052
Net capital assets being depreciated	548,797	368,602	297,547	16,200	1,198,746
Net capital assets	<u>\$ 917,399</u>	<u>\$ -</u>	<u>\$ 332,709</u>	<u>\$ 16,200</u>	<u>\$ 1,233,908</u>

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 8,817
Public safety	338
Public works	101
Highways and streets	8,189
Recreation and culture	31,531
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	<u>51,766</u>

Total governmental activities	<u>\$ 100,742</u>
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Business-type activities:

Water	\$ 30,970
Sewer	<u>32,940</u>

Total business-type activities	<u>\$ 63,910</u>
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Construction Commitments - The City has active construction projects at year end as follows:

	Total Commitment	Spent to Date	Remaining Commitment
Street projects	\$ 1,205,128	\$ 294,225	\$ 910,903
Water main project	584,000	32,622	551,378
Sewer project	<u>100,000</u>	<u>2,540</u>	<u>97,460</u>
Total	<u>\$ 1,889,128</u>	<u>\$ 329,387</u>	<u>\$ 1,559,741</u>

The component units' capital assets consisted of land totaling \$169,800. There were no purchases or disposals during the year ended June 30, 2004.

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Motor Pool Fund	\$ 5,000
Special Revenue Fund - Major Streets Fund	General Fund	18,361
	Major Street Construction	<u>65,060</u>
Total Special Revenue Fund - Major Streets Fund		83,421
Special Revenue Fund - Local Streets Fund	General Fund	26,336
Special Revenue Fund - Sanitation Collection	General Fund	<u>70</u>
Total governmental funds		<u>\$ 114,827</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

The interfund transfer reported in the fund financial statements involves a transfer of \$17,115 from the Major Streets Fund to the Local Streets Fund and \$70 from the General Fund to the Sanitation Fund for various maintenance and operational expenditures.

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

Note 7 - Long-term Debt

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
General Obligation Bonds:						
1998 Act 175 Bonds - Major Streets:						
Amount of issue: \$360,000	4.3% -					
Maturing through 2013	5.0%	\$25,000	\$ 250,000	\$ (25,000)	\$ 225,000	\$ 25,000
2000 General Obligation Bonds:						
Amount of issue: \$85,000	5.3% -	\$5,000 -				
Maturing through 2015	7.0%	\$10,000	70,000	(5,000)	65,000	5,000
2004 General Obligation Bonds:						
Amount of issue: \$345,000	3.0% -	\$20,000 -				
Maturing through 2019	4.55%	\$30,000	-	345,000	345,000	20,000
Installment purchase agreements:						
Various equipment and auto agreements:						
Amount of issue: \$100,195	3.28% -	\$2,291 -				
Maturing through 2006	6.10%	\$8,594	49,741	(13,941)	35,800	19,190
2002 installment purchase agreements:						
Amount of issue: \$23,367		\$3,165 -				
Maturing through 2006	4.58%	\$6,106	15,092	(5,826)	9,266	6,106
2000 Special Assessment Bonds:						
Amount of issue: \$120,000	5.3% -	\$5,000 -				
Maturing through 2014	7.0%	\$10,000	105,000	(5,000)	100,000	5,000
Total bonds and installment purchase agreements			489,833	290,233	780,066	80,296
Accumulated compensated absences			5,807	(2,875)	2,932	2,932
Total governmental activities			\$ 495,640	\$ 287,358	\$ 782,998	\$ 83,228
Business-type Activities						
General obligation bonds:						
2003 Capital Improvement Bonds:						
Amount of issue: \$640,000	3.125% -	\$35,000 -				
Maturing through 2018	4.60%	\$55,000	\$ 640,000	\$ (35,000)	\$ 605,000	\$ 35,000
2004 Capital Improvement Bonds:						
Amount of issue: \$300,000						
Maturing through 2006	1.875%	\$300,000	-	300,000	300,000	-
Total business-type activities			\$ 640,000	\$ 265,000	\$ 905,000	\$ 35,000

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 80,296	\$ 35,189	\$ 115,485	\$ 35,000	\$ 27,500	\$ 62,500
2006	66,226	31,392	97,618	335,000	25,250	360,250
2007	63,017	28,424	91,441	35,000	21,335	56,335
2008	63,203	25,522	88,725	35,000	20,233	55,233
2009	62,324	22,762	85,086	40,000	19,130	59,130
2010-2014	290,000	72,515	362,515	215,000	73,505	288,505
2015-2019	155,000	19,648	174,648	210,000	24,095	234,095
Total	\$ 780,066	\$ 235,452	\$ 1,015,518	\$ 905,000	\$ 211,048	\$ 1,116,048

Note 8 - Restricted Assets

The balances of the restricted asset accounts relate to unspent bond proceeds and related interest in the Major Street Construction, Water, and Sewer Funds. These amounts are required to be set aside for construction of various specific road improvements as well as water and sewer lines.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance relating to risks associated with property loss, torts, and errors and omissions, as well as medical benefits other than dental and optical coverage. The City participates in the Michigan Municipal League for claims relating to employee injuries (workers' compensation). The City is uninsured for employee dental and optical claims, for which the City reimburses each employee annually, up to a maximum of \$750 per employee. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Joint Ventures

The City is a member of the Clio Area Fire Authority, which provides fire protection services to the residents of the City of Clio, Vienna Township, and Thetford Township. The participating communities provide annual funding for its operations. During the current year, the City contributed approximately \$37,000 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Clio Area Fire Authority can be obtained from the administrative offices at 3400 W. Vienna Road, Clio, Michigan 48420.

The City is a member of the Clio Area Library, which provides library services to the residents of the City of Clio, Vienna Township, and Thetford Township. The participating communities provide annual funding for its operations. During the current year, the City contributed approximately \$6,000 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Clio Area Library can be obtained from the administrative offices at 3400 W. Vienna Road, Clio, Michigan 48420.

The investments in joint ventures are not recorded in the financial statements as the City does not hold a definable interest in either of the entities and would not be able to collect payment upon terminating the relationship.

Note 11 - Defined Contribution Pension Plan

The City provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The City contributes 10 percent of employees' gross earnings for a 40-hour work week. In accordance with these requirements, the City contributed approximately \$59,500 during the year ended June 30, 2004.

Note 12 - Other Postemployment Benefits

The City has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The government pays the full cost of coverage for these benefits. Currently, two retirees are eligible for postemployment health benefits. For the fiscal year ended June 30, 2004, the City made payments for postemployment health benefit premiums of approximately \$10,400. The government obtains health care coverage through private insurers.

Note 12 - Other Postemployment Benefits (Continued)

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Post-employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

Note 13 - Accounting and Reporting Change

Effective July 1, 2003, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, along with all related statements and interpretations. Changes to the City's financial statements as a result of GASB 34 are as follows:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the City's activities have been provided.
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets (roads) not previously accounted for by the City as well as assets that would previously have been reported in the General Fixed Assets Account Group.
- Capital assets at July 1, 2003 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$803,000 to reflect the historical cost of the City's capital assets at that date.
- The governmental activities column includes bonds and other long-term obligations previously reported in the General Long-term Debt Account Group.
- The governmental funds now accrue a liability for compensated absences only to the extent that they come due for payment prior to year end.

Required Supplemental Information

City of Clio, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenue				
Property Taxes				
Real and personal property taxes	\$ 730,364	\$ 721,652	\$ 703,147	\$ (18,505)
Property tax interest and penalties	1,500	2,587	2,587	-
Administrative fees - Taxes	17,500	26,099	26,099	-
Total property taxes	749,364	750,338	731,833	(18,505)
Licenses and Permits				
Building permit fees	20,000	26,200	26,128	(72)
Ordinance fees	25,000	42,610	42,610	-
Other licenses and permits	3,650	1,935	1,935	-
Total licenses and permits	48,650	70,745	70,673	(72)
Federal Sources	-	-	11,389	11,389
State Sources	320,826	307,029	307,029	-
Charges for Services	7,400	12,300	12,317	17
Fines and Forfeitures	3,000	7,179	7,229	50
Interest	7,000	4,149	5,766	1,617
Other				
Franchise fees	20,700	22,617	22,758	141
Rent	23,500	25,549	25,459	(90)
Reimbursements	24,805	20,419	16,530	(3,889)
Donations	82,328	92,421	92,421	-
Other	4,600	4,600	4,600	-
Total other	155,933	165,606	161,768	(3,838)
Operating Transfers In	-	2,524	-	(2,524)
Total revenue	1,292,173	1,319,870	1,308,004	(11,866)

City of Clio, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Expenditures				
General Government				
Office of the mayor	\$ 3,000	\$ 2,098	\$ 1,914	\$ 184
Board of Review	1,100	1,058	1,058	-
Commission	19,610	16,682	16,149	533
Elections	-	179	179	-
Assessor	18,790	19,452	19,474	(22)
Clerk	38,047	44,705	44,120	585
Treasurer	24,021	18,913	19,169	(256)
City Hall	48,000	61,750	62,128	(378)
City shop	42,675	37,250	37,157	93
Administration	58,328	50,073	50,384	(311)
Legal services	32,400	62,444	45,589	16,855
Other	334,822	303,509	344,845	(41,336)
Total general government	620,793	618,113	642,166	(24,053)
Public Safety				
Police	382,743	392,051	391,013	1,038
Fire	37,402	37,402	37,402	-
Inspection services	20,000	28,292	27,072	1,220
Total public safety	440,145	457,745	455,487	2,258
Public Works				
Mosquito control	-	4,203	4,220	(17)
Public service	59,310	49,739	49,608	131
Street lighting	31,000	37,165	37,117	48
Planning	8,275	9,429	8,904	525
Zoning	1,000	1,896	1,495	401
Total public works	99,585	102,432	101,344	1,088
Recreation and Cultural				
Senior citizen programs	5,600	5,400	5,400	-
Parks	41,430	80,889	81,629	(740)
Library	6,496	6,016	6,016	-
Bike path	29,850	35,608	35,341	267
Total recreation and cultural	83,376	127,913	128,386	(473)
Civic Buildings				
Roger's Lodge	9,330	10,632	10,681	(49)
500 South Mill Street	25,000	21,481	21,481	-
Total civic buildings	34,330	32,113	32,162	(49)
Debt Service				
	6,400	5,870	6,405	(535)
Operating Transfers Out				
	-	-	70	(70)
Total expenditures	1,284,629	1,344,186	1,366,020	(21,834)
Excess of Revenue Over (Under) Expenditures	7,544	(24,316)	(58,016)	\$ (33,700)
Fund Balance - Beginning of year	284,348	284,348	284,348	
Fund Balance - End of year	\$ 291,892	\$ 260,032	\$ 226,332	

City of Clio, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Major Streets Year Ended June 30, 2004

	Major Streets Fund			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State sources	\$ 143,898	\$ 143,898	\$ 153,107	\$ 9,209
Interest	409	409	397	(12)
Other revenue	-	-	450	450
Total revenues	144,307	144,307	153,954	9,647
Expenditures				
General government	30,218	30,218	11,853	18,365
Highways and streets	65,812	65,812	65,185	627
Debt service	36,525	36,525	35,811	714
Operating transfers out	17,115	17,115	17,115	-
Total expenditures	149,670	149,670	129,964	19,706
Excess of Revenue Over (Under) Expenditures	(5,363)	(5,363)	23,990	\$ 29,353
Fund Balance - Beginning of year	72,452	72,452	72,452	
Fund Balance - End of year	\$ 67,089	\$ 67,089	\$ 96,442	

City of Clio, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Local Streets Year Ended June 30, 2004

	Local Streets			Variance with
	Original Budget	Amended Budget	Actual	Amended Budget
Revenue				
Federal sources	\$ 86,416	\$ 86,416	\$ 86,416	\$ -
State sources	39,404	39,404	39,660	256
Interest	580	580	548	(32)
Other revenue	3,783	3,783	3,783	-
Operating transfers in	17,115	17,115	17,115	-
Total revenues	147,298	147,298	147,522	224
Expenditures				
General government	30,314	30,314	3,965	26,349
Highways and streets	218,244	218,244	216,610	1,634
Debt service	9,380	9,380	9,380	-
Total expenditures	257,938	257,938	229,955	27,983
Excess of Expenditures Over Revenue	(110,640)	(110,640)	(82,433)	\$ 28,207
Fund Balance - Beginning of year	132,155	132,155	132,155	
Fund Balance - End of year	\$ 21,515	\$ 21,515	\$ 49,722	

City of Clio, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Public Improvements Year Ended June 30, 2004

	Public Improvements Fund			Variance with Amended Budget
	Original Budget	Amended Budget	Actual	
Revenue				
Interest	\$ 2,761	\$ 2,761	\$ 2,616	\$ (145)
Other revenue	200	200	200	-
Total revenue	2,961	2,961	2,816	(145)
Expenditures - General government	41,391	41,391	41,391	-
Excess of Expenditures Over Revenue	(38,430)	(38,430)	(38,575)	<u><u>\$ (145)</u></u>
Fund Balance - Beginning of year	280,061	280,061	280,061	
Fund Balance - End of year	<u><u>\$ 241,631</u></u>	<u><u>\$ 241,631</u></u>	<u><u>\$ 241,486</u></u>	

Note to Required Supplemental Information June 30, 2004

Budgetary Information - The annual budget is prepared by the City management and adopted by the City Commission; subsequent amendments are approved by the City Commission. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as an "other financing sources (uses)". Unexpended appropriations lapse at year end.

The City follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Budget Officer shall prepare and submit to the Commission, on or before the first regular meeting in April of each year, a budget document covering the next fiscal year tabulating the recommendations of several department heads and officials.
2. Not later than the third Monday of May, the Commission shall, by resolution, adopt the budget for the net fiscal year.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund and each of the major Special Revenue Funds budgets as adopted by the City Commission is included in the required supplemental information. There was one material expenditure budget overrun noted in the General Fund general government expenditures due to various accruals at year end. A comparison of the actual results of operations to the nonmajor Special Revenue Funds budgets as adopted by the City is available at the City Clerk's office.

Other Supplemental Information

City of Clio, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2004

	<u>Special Revenue Funds</u>			Total
	PEG	Sanitation Collection	Special Assessment Debt Service	Nonmajor Governmental Funds
Assets				
Cash	\$ 15,323	\$ -	\$ 61,147	\$ 76,470
Due from other funds	-	70	-	70
Receivables - Special assessments	-	-	33,031	33,031
Total assets	<u><u>\$ 15,323</u></u>	<u><u>\$ 70</u></u>	<u><u>\$ 94,178</u></u>	<u><u>\$ 109,571</u></u>
Liabilities and Fund Balances				
Liabilities				
Accrued and other liabilities	\$ -	\$ 70	\$ -	\$ 70
Deferred revenue	-	-	33,031	33,031
Total liabilities	-	70	33,031	33,101
Fund Balances - Unreserved and undesignated	<u>15,323</u>	<u>-</u>	<u>61,147</u>	<u>76,470</u>
Total liabilities and fund balances	<u><u>\$ 15,323</u></u>	<u><u>\$ 70</u></u>	<u><u>\$ 94,178</u></u>	<u><u>\$ 109,571</u></u>

City of Clio, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2004

	<u>Special Revenue Funds</u>			Total
		Sanitation	Special	Nonmajor
	PEG	Collection	Assessment	Governmental
			Debt Service	Funds
Revenue				
Charges for services	\$ -	\$ 111,205	\$ -	\$ 111,205
Interest	159	-	3,621	3,780
Other	34	-	12,831	12,865
Total revenue	193	111,205	16,452	127,850
Expenditures				
Public works	-	111,275	-	111,275
Debt service	-	-	11,395	11,395
Total expenditures	-	111,275	11,395	122,670
Excess of Revenue Over (Under)				
Expenditures	193	(70)	5,057	5,180
Other Financing Sources - Transfers in	-	70	-	70
Net Change in Fund Balances	193	-	5,057	5,250
Fund Balances - Beginning of year	15,130	-	56,090	71,220
Fund Balances - End of year	<u>\$ 15,323</u>	<u>\$ -</u>	<u>\$ 61,147</u>	<u>\$ 76,470</u>

September 14, 2004

Honorable Mayor and Members
of the City Commission
City of Clio
505 West Vienna Street
Clio, Michigan 48420

Dear Mayor and Commission Members:

We have recently completed our audit of the City's financial statements for the year ended June 30, 2004. As part of our audit, and in addition to the financial report, we offer the following comments and recommendations for your consideration. For your information, we have also provided several legislative issues that could affect the City.

REPORTABLE CONDITION

In planning and performing our audit of the financial statements of the City of Clio for the year ended June 30, 2004, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a matter involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matter noted is one that came to our attention and had our procedures in internal control related matters been more extensive, other matters may have been noted.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be a material weakness.

We noted that the bank reconciliations were not reviewed on a regular basis. In addition, the person responsible for making journal entries was also primarily responsible for cash collections from customers and making deposits at the bank. These items can result in errors or irregularities

not being identified on a timely basis. Although we noted no errors or irregularities in cash during the audit, we encourage the City to correct these items.

ACCOUNTING AND RECORD KEEPING

Cash

As mentioned in previous years, bank reconciliations should be signed by the preparer and reviewer in order to provide evidence of appropriate segregation of duties. The lack of proper review procedures for the bank reconciliations is a material weakness in the City's internal control system, and therefore is further explained in the reportable conditions items above.

Proper segregation of duties should be followed. The person responsible for making journal entries should not be primarily responsible for cash collections from customers or making deposits at the bank. The record keeping would normally be the responsibility of the City Clerk (general journal entries) and deposits are normally the responsibility of the City Treasurer. Per discussions with the Treasurer, as of the year ended June 30, 2005, the Treasurer is no longer able to post entries. However, since the lack of appropriate segregation of duties is a material weakness in the City's internal control system for 2004, it is further explained in the reportable conditions items above.

Act 51 Money

As mentioned in the prior year, the most recent Act 51 report indicate that the cumulative expenditures for nonmotorized improvements do not exceed 10% of current year's Act 51 funding from the Michigan Transportation Fund, since the cumulative amounts do not include figures for 1993 through 1997. The City was notified by the State of Michigan to complete this form properly. The City has addressed this matter via a conversation with the State; however no response has been received as of current date.

Downtown Development Authority

With the changes taking place during the conversion to GASB 34, the Authority should consider reviewing its plan documents and updating them as deemed necessary.

Other Accounting Items

The City currently reports on Form L-4029 that the source of 1 mill for fire protection is the City Charter. Per discussion with City Management, the source is essentially a dedication of 1 mill of the city's existing operating millage. We suggest the City consult with the City attorney for guidance on reporting these millages on future Form L-4029's.

Water and Sewer Rate Structure

Recently, the City had a study performed to help set the current water and sewer rate structure. The City should continue to review its structure on an annual basis, perhaps during the budget process, to ensure compliance with all existing federal and state regulations.

REVENUE SHARING

State shared revenue is a significant portion of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to State's tax structure, we continue to urge the City to be very conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

We will continue to update the City as developments occur.

TRANSPORTATION MATTERS

The Legislature recently approved HB 5319 which would earmark one-half of one cent of the state gasoline tax for the preservation, improvement or reconstruction of existing bridges. It is estimated that over the next 10 years approximately a half billion dollars will be available to local governments for bridge needs. Presently, these monies are used primarily by the Michigan Department of Transportation for State bridges. The legislation creates a Local Bridge Authority to manage the monies, as well as seven, five member, regional bridge councils. The new Authority would consist of six voting members appointed by the State Transportation Commission (three nominations by the County Road Association of Michigan and three by the Michigan Municipal League) and two non-voting members nominated by the Department of Transportation.

Also, HB 4358 has been introduced which changes vehicle weight restrictions on Michigan roads for certain trucks (without regard to existing limitations imposed by local governments) and could reduce overweight truck fines.

HEALTH CARE COSTS

It is our understanding that the State of Michigan may be offering local governments the opportunity to participate in the State's prescription drug program. A presentation was made in September 2004 to introduce this program to local governments. While we have not evaluated the program, the City may want to consider this option as it evaluates and continues to try to control its health care costs.

PROPERTY TAX MATTERS

During the current legislative session, there have been a number of bills involving property taxes that impact local governments. The following is a highlight of several of the bills:

- HB 4880, as passed by the House in August 2004, proposes to increase property taxes for mobile home owners with additional monies earmarked for local governments.
- HB 6017 was introduced to address the inconsistent treatment of assessing commercial property using the occupancy method. The inconsistent treatment occurs when the taxable value of a commercial property is reduced based on a loss in occupancy and a corresponding increase will not occur when occupancy increases resulting in a permanent taxable cap on property (subject to annual inflationary increases). This treatment is a result of what is commonly referred to as the "WPW Case" involving the City of Troy.
- HB 4649 was passed by the House and would allow for local governments to pass a resolution exempting new construction on homestead property used as a living area from property taxes (subject to certain limitations) in all or just certain areas of the local jurisdiction.

PROPERTY TAX MATTERS (CONTINUED)

- HB 5358 was introduced and would change the requirements for personal property tax examiners including: requiring the State Tax Commission to qualify examiners based on experience and examination; require examiners to be employees of a local government; and make payments to examiners on a per parcel basis.
- HB 5538, as passed by the House, exempts property under development from school operating taxes (18 mills) by classifying the property as "homestead" property. The bill also proposes to not allow the taxable value of property to "uncap" when the property is sold to a new owner.
- HB 4234, as passed by the House, would provide a personal property tax exemption to businesses with taxable value of personal property of \$7,500 or less (these businesses would be exempt from paying any personal property taxes). Language was included in the House that any revenue loss to local governments would be reimbursed by the State. However, these monies would require an appropriation by the Legislature.

MUNICIPAL FINANCE ACT - REMINDER

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities and authorities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. The filing will serve as a pre-approval for debt issuances. The current filing is due within six months of the City's year end (August 31, 2004) and is good through the extended due date of the financial statement filings. The Downtown Development Authority should file as well with the same due dates.

GOVERNMENT ACCOUNTING STANDARDS BOARD STATEMENT 34

Governmental Accounting Standards Board (GASB) Statement 34 is now here! You will notice a different look to the audited financial statements this year. Although there are many differences with this new reporting model, the major additions are as follows:

- Management Discussion and Analysis: Management is now required to give an overview of the City's overall financial position and results of operations.
- Government-wide Financial Statements: The statements now adjust the traditional fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the City's financial position from a current and longer term perspective including its capital assets and long term debt.
- Budget Comparison: A financial statement reader will now be able to not only view the actual revenue and expenditures of the City as compared to the current budget, but also as compared to the original adopted budget.

September 14, 2004

GOVERNMENT ACCOUNTING STANDARDS BOARD STATEMENT 34 (CONTINUED)

The GASB believes that this new model will provide a more complete picture of the financial position of the City. We would be happy to schedule a time to provide a more detailed overview about this new reporting model so that you can obtain the greatest user benefit from it.

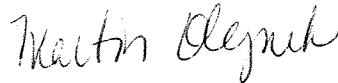
We would like to thank the City, in particular Don Dowell and all those involved with the audit process, for their assistance. If any questions arise on reviewing the financial statements or on the above comments, we would be happy to discuss them with you or assist in the implementation of any of the recommendations. Thank you for the opportunity to be of service.

Very truly yours,

PLANTE & MORAN, PLLC



David H. Helisek-



Martin J. Olejnik

September 14, 2004

Audit Committee
City of Clio

We have recently completed our audit of the financial statements of the City of Clio for the year ended June 30, 2004. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the Audit Committee and others within the organization.

Auditor's Responsibility Under Generally Accepted Auditing Standards

We conducted our audit of the financial statements of the City of Clio in accordance with accounting principles generally accepted in the United States of America. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

Significant Accounting Policies

Auditing standards call for us to inform you regarding the initial selection of, and change in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There were no significant unusual transactions or controversial or significant emerging areas for which new accounting policies were needed.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Auditing standards call for us to report to you on accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments. Further, we are expected to report to you about the process used by management in formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates. We noted no matters related to sensitive accounting estimates.

Audit Adjustments

Auditing standards call for us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed. As a result of our audit, there were no significant adjustments made to the financial statements that may not have been identified except through the audit procedures performed.

Auditing standards also require us to inform the audit committee about uncorrected possible financial statement adjustments identified by us during the current engagement and pertaining to the latest period presented, which were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Please see attachment for all uncorrected possible financial statement adjustments identified.

Disagreements With Management

In the process of conducting an audit, various matters will be discussed with management. In that process, significant differences of opinion may arise regarding the scope of the audit, the application of accounting principles, disclosures to be included in the City's financial statements or the wording of our report. In the interest of keeping you informed of all significant matters, such differences are required to be reported to you even though they are satisfactorily resolved. There were no disagreements with management over the application of accounting principles or the basis for management's judgments about accounting estimates. Additionally, there were no disagreements regarding the scope of the audit, disclosures to be included in the financial statements, or the wording of the auditor's report.

Consultation With Other Accountants

When management consults with other accountants about significant accounting and auditing matters, auditing standards require that we present our views on those matters to you. To our knowledge, there were no such consultations with other accountants.

Reportable Conditions

During our audit of the financial statements, it came to our attention that bank reconciliations were not reviewed on a regular basis. In addition, it was noted that the person responsible for posting journal entries is also responsible for the collection of cash.

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



David H. Helisek

ATTACHMENT:

SUMMARY OF UNRECORDED ADJUSTMENTS

The effect of misstatements and classification errors identified would be to Increase (Decrease) the reported amounts in the financial statement categories identified below:

<u>Description of Misstatement</u>	<u>Current Assets</u>	<u>Current Liabilities</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Income</u>
GENERAL FUND:					
To adjust A/P for amount improperly included @ YE.	-	(1,000.00)	-	(1,000.00)	-
To record deferred revenue relating to Mott and VG's grants.	-	5,202.33	(5,202.33)	-	(5,202.33)
To record adjustment for delinquent personal property taxes	9,857.00	9,857.00	-	-	-
To record liability for professional services that is in dispute. (Services performed before YE.)	-	17,000.00	-	17,000.00	(17,000.00)
SPECIAL REVENUE FUNDS:					
To record interest revenue from CD at Nat City	636.00	-	636.00	-	636.00
To adjust A/P for amount improperly excluded @ YE.	-	1,550.00	-	1,550.00	-
GOVERNMENT WIDE (GASB 34):					
To record revenue for delinquent personal property taxes (relates to GF)	-	(9,857)	9,857	-	-
Total	10,493	22,752	5,291	17,550	(21,566)
GENERAL FUND:	9,857	31,059	(5,202)	16,000	(22,202)
SPECIAL REVENUE FUNDS:	636	1,550	636	1,550	636
GOVERNMENT WIDE (GASB 34):	10,493	22,752	5,291	17,550	(21,566)